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IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Before the Board of Patent Appeals and Interferences

Applicants:	Timothy Labadie, et al.
Appl. No.:	09/259,619
Filed:	March 1, 1999
Title:	Internet Based Payment System
Art Unit:	3624
Examiner:	Ella Colbert
Docket No.:	210655.90018

APPELLANT'S BRIEF ON APPEAL

Commissioner for Patents
P.O. Box 1450
Alexandria, VA 22313-1450

Sir:

Appellant, Timothy Labadie, having filed a timely Notice of Appeal in the above-identified patent application, hereby submit this brief.

I. REAL PARTY IN INTEREST

The real party in interest is Crosscheck, Inc., a California company having a place of business at 6119 State Farm Drive, Rohnert Park, CA.

II. RELATED APPEALS AND INTERFERENCES

There are no related appeals or interferences.

III. STATUS OF CLAIMS

Claims 1 – 4, 8 – 11, 13, 14 and 16 are pending in the application. These claims have been finally rejected. This appeal is taken with respect to claims 1 – 4, 8 – 11, 13, 14, and 16, which are reproduced in Appendix A.

IV. STATUS OF AMENDMENTS

No amendments were made after the final rejection. The pending claims are those that were entered in an amendment dated April 14, 2005.

V. SUMMARY OF THE INVENTION

The present invention provides a way for consumers to pay for products purchased on the Internet using a personal check instead of a credit card.

The obvious difficulty of using a check for Internet purchases is that there is no way for the check to be physically presented to the merchant or for the merchant to verify that the signature is genuine. Even with a check in hand, that is properly signed, the merchant cannot be sure that the check will be honored because there is no way to verify that there are funds at the bank on which the check is drawn or that those funds will be present when the check is presented.

The present invention solves this problem by employing a statistical database to estimate the likelihood of the check being honored and based on this statistical assessment, guaranteeing the payment to the merchant and printing a duplicate check for submission to the banking system in lieu of a physical check from the customer. The interaction between the merchant and this service is invisible to the customer and essentially instantaneous.

The statistical assessment makes use of a database that is constantly updated and refined to provide a statistical analysis of the likelihood of a given check being honored. This statistical determination does not rely on absolute knowledge of the credit worthiness of the

customer which cannot in general be determined. It is inevitable, therefore, that some bad checks will be processed and some good checks will be rejected, but over time the reliability is sufficiently high as to enable Internet commerce using checks.

VI. GROUNDS OF REJECTION TO BE REVIEWED ON APPEAL

Are claims 1 – 4, 10 – 11, 13 – 14, and 16 properly rejected under 35 U.S.C. Section 103(a) as unpatentable over Barnes, U.S. Patent Number 5,970,475 in view of Elgamal, U.S. Patent No. 6,138,107?

Are claims 8 – 9 properly rejected under 35 U.S.C. Section 103(a) as unpatentable over Barnes, Elgamal, and further in view of Templeton, U.S. Patent Number 5,679,940?

VII. ARGUMENT

I. Background

As described above, the present invention provides a means for customers to pay for merchandise over the internet using checks. Claim 1 of the present invention, requires the following key elements:

(1) a merchant computer such as those used by Internet merchants having a web site that allows an option for payment by checks.

(2) a customer computer for example supporting a browser that may be used by a customer to make an Internet purchase and which allows transmission of a unique customer identifier (such as a driver's license number) over the Internet.

(3) a processor computer separate from the merchant and the customer computers that can

(i) receive the customer identifier and an indication that the customer wishes to pay by check

(ii) index a data structure indicating a likelihood that the check will be honored

(iii) based on the likelihood, forward a message to the merchant computer indicating whether a check should be accepted; and

(iv) print a check that can be processed by normal bank channels.

II. The Cited References

A. Barnes.

The Barnes reference is entitled "Electronic Procurement System and Method for Trading Partners", and discloses an electronic system to "enable corporate purchasers and suppliers to electronically transact for the purchase of goods" (See abstract), "and to reduce costs by allowing authorized end users to directly interact with suppliers..." (Column 6, lines 10 – 12). As recited in claim 1 of the Barnes reference, the system includes "security means which limit transactions to customers and suppliers who have a pre-arranged relationship".

Referring to Fig. 3, the electronic system includes a merchant computer 16 and a customer computer 12 independent of the merchant computer. Each of the customer computer and merchant computer are further connected to a bank server 18. The bank server, as discussed at column 6, lines 26 – 28 is "used ...to make payments for goods/services to the Seller 16 or the Seller's bank 20." These payments may be made "through normal wire transfers 22" (column 6, lines 29 – 33). Although payment can be made "by creditor purchase card, check, legacy system, or ACH" (column 8, lines 47-57), the only computerized method of payment discussed is through the ACH, an automated clearing house which is directly linked to a bank computer (column 7, lines 15 – 18).

Barnes, therefore, clearly describes a system where there are pre-existing contractual relations and credit relationships between customer and merchant. Because of this pre-existing relationship, a direct link can be made, and money transferred directly between

banks. Checks are not transmitted through the system, and there is no direct relationship between checks and the system.

B. Elgamal

The Elgamal reference is entitled "Method and Apparatus for Providing Electronic Accounts Over a Public Network", and describes a micro payment system for the Internet. This system employs a merchant computer and a customer computer and a payment gateway (PG computer). In the system, however, before any transaction, the customers give money to the PG computer to establish an account. (See generally, col. 11, lines 38-51).

When the customer wishes to make a purchase, the merchant contacts the PG computer which checks to see if the money has already been deposited with the PG computer. The PG computer verifies if there are sufficient funds, and only authorizes purchase if sufficient funds are available. (See col. 11, line 64 to col. 12, line 10) In the context of a check transaction on the Internet, pre-payment by the customer to a merchant wholly eliminates any need for or benefit from a check.

III. The Claims Are Not Obvious in View of the Cited References

A. Obviousness Standard

To establish a prima facie case of obviousness, the prior art references must teach all of the limitations of the claim. Furthermore, there must be some suggestion or motivation to combine the cited references, and the teaching or suggestion to make the modification must be found in the reference and cannot be based on Applicant's disclosure. See MPEP §706.02(j) (citing *In re Vaeck*, 947 F.2d 488, 20 USPQ2d 1438 (Fed. Cir. 1991)).

Objective evidence or secondary considerations such as unexpected results, commercial success, long-felt need, failure of others, copying by others, licensing, and skepticism of experts are relevant to the issue of obviousness and must be considered in every case in which they are present. When evidence of any of these secondary considerations is

submitted, the examiner must evaluate the evidence. The weight to be accorded to the evidence depends on the individual factual circumstances of each case. *Stratoflex, Inc. v. Aeroquip Corp.*, 713 F.2d 1530, 218 USPQ 871 (Fed. Cir. 1983); *Hybritech, Inc. v. Monoclonal Antibodies, Inc.*, 802 F.2d 1367, 231 USPQ 81 (Fed. Cir. 1986), *cert. denied*, 480 U.S. 947 (1987).

B. The Cited Prior Art References Do Not Teach All of the Limitations of the Claims, Either Alone or in Combination

None of the art cited by the Applicant or the Patent Office provides a system that would allow consumers to use checks for Internet purchases. Most of the art describes electronic fund transfers that rely on the consumer and merchant having a pre-existing agreement or credit line that insures payment. Such systems do not permit consumer purchases from merchant with whom they have no preexisting relationship--the vast majority of consumer purchases on the Internet.

The Barnes reference clearly describes a system where there are pre-existing contractual relations and credit relationships between customer and merchant, something that is simply not possible for typical Internet transaction and which is avoided by the present invention.

The Elgamal reference requires pre-payment by the customer before transactions can be conducted. In the context of a check transaction on the Internet, pre-payment by the customer to a merchant wholly eliminates any need for or benefit from a check.

The Barnes and Elgamal references, moreover, fail to teach each of the following elements of the claims:

(1) Check Option. Neither Barnes nor Elgamal teach selection of a check payment option at a merchant computer, nor the forwarding of customer information to a processor computer as recited in claim 1. As claimed, the processor computer must be "independent

from the customer computer and merchant computer programmed to receive at least one customer identifier in response to a selection of the payment by check option (on the merchant computer).

While the Barnes patent indicates at col. 8, lines 47-57 that "after a shipment has been made to the user, the user can select how to pay the invoice, e.g., by creditor purchase card, check, legacy system, or ACH", there is no suggestion or teaching in Barnes that selection of the check option causes the generation of a customer identification information, or indeed transmits any information, to a processor computer. The clear reading of this passage when taken in the context of the entire Barnes patent is that when the check option is selected, the merchant computer is notified and the customer mails the merchant a check in due course. Applicant can find no other reference to "check" in this application nor is any mechanism described that would enable on-line check submission.

(2) Data Structure Matching Customer Identifier and Statistical Element. Neither Barnes nor Elgamal teach a "data structure" matching the customer identifier to a statistical element to determine a probability of payment obligation by the customer being authorized without communication with the third party bank. The Examiner cites a security protocol in Barnes that is neither intended to nor does indicate the probability of a payment obligation being honored, an outcome that depends almost entirely a function of whether there are funds in the bank. This argument is more carefully advanced in paragraph 2 at pgs. 5 and 6 of the Amendment of April 14, 2005.

(3) Decision Whether Check Should be Accepted. Neither Barnes nor Elgamal teach transmission to the merchant computer indicating whether a check should be accepted. In Barnes, a check is simply accepted without any choice by the merchant because Barnes assumes a long term pre-existing relationship between the merchant and customer in which payment is assured. Elgamal assumes prepayment by the customer.

(4) Producing a Printed Check. Neither Barnes nor Elgamal teach producing a printed check.

The Examiner has not replied to or rebutted the Applicant's assertions with respect to points 3 and 4. Given the specificity of the Applicant's reply, for these reasons alone, claim 1 must be allowable over this combination of references.

In response to the deficiency listed as (1) above, the Examiner simply states with respect to Barnes, that it is "interpreted that it is understood that the payment option selected can be by check and known that some type of identifier has to be transmitted to a bank's transaction processor before the transaction can take place and the payment can be settled". This may be correct but is irrelevant. The claims of the present case clearly indicate that the "identifier" has to be transmitted to a processor computer "which operates" without communication with the third party bank. Thus the Examiner assertion that it would be well known to send a customer identifier to the bank is exactly the opposite of the teachings and claims of the present invention.

The Examiner, therefore, has failed to identify a number of limitations of the claimed invention, and the cited references cannot be combined to provide a prima facie case of obviousness of the invention as recited in claim 1.

B. There is No Motivation to Combine the Cited References.

Without pointing to any passage within the references themselves, the Examiner asserts that it would have been obvious to combine "the online ordering system of Barnes with the secure courier system of Elgamal "in order to improve access to mail order goods and services for those who do not have a credit card". The Examiner also asserts that further motivation to combine would have been "in order to reach a wider customer base...".

As described above, however, Barnes discloses a system in which the buyers and sellers are corporate purchasers and suppliers having a pre-established relationship. The

purpose of the invention of Barnes is to provide a purchasing system to a limited set of known buyers with known credit histories. Barnes suggests neither providing services for those who "do not have a credit card" or "reaching a wider customer base". On the contrary, Barnes teaches away from extending credit to anyone outside of a known group of purchasers.

Even if all of the elements were found in the cited references, therefore, the Examiner has provided no reasonable motivation to combine Barnes and Elgamal. The reasons cited by the Examiner are not found in the cited references, and are clearly impermissibly drawn from the present application. For this reason as well, the Examiner has failed to establish a prima facie case of obviousness.

C. Secondary Considerations

Even if a prima facie case of obviousness could be established based on Barnes and Elgamal, moreover, the present rejection should be overturned based on the failure of any Examiner to properly review the substantial evidence of non-obviousness based on secondary considerations that has been submitted in this case.

Attached hereto is a copy of an affidavit of commercial success initially submitted by the Applicant in a response dated February 8, 2002. In the office action dated April 15, 2002, the Examiner noted that the affidavit "failed to distinguish ... over the present combination of Pollin and Rowney". The purpose of an affidavit of commercial success, however, is not to distinguish over prior art references, but to provide evidence of non-obviousness irrespective of whether a prima facie case of obviousness has been established. Since this initial review, no Examiner has indicated that this evidence has been properly evaluated. The Applicants therefore respectfully request that this evidence of commercial success also be considered, and that the rejection of the claims be overturned on this basis as well.

VIII. CONCLUSION

The cited combination of Barnes and Elgamal does not teach all of the elements of claim 1 of the present application. The Examiner has not provided any reasonable suggestion or motivation to combine these references. The Examiner, therefore, has failed to establish a prima facie case of obviousness.

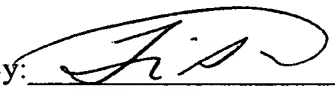
Moreover, even if a prima facie case of obviousness could be established based on this record, there is substantial evidence of non-obviousness based on commercial success. In view of these facts, the Applicant respectfully requests that the rejection of claims 1 – 4, 10 – 11, 13 – 14, and 16 based on Barnes and Elgamal be overturned.

Claims 8 and 9 depend from claim 1, and have therefore not been shown to be obvious for the reasons stated above. The Applicants, therefore, also respectfully request that the rejection of claims 8 – 9 be overturned.

Respectfully submitted,

Timothy Labadie, et al.

Dated: February 10, 2006

By: 

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APPENDIX A

1. (previously presented) An Internet check payment computer system comprising:

a merchant computer executing a stored program to communicate with the Internet to create an Internet site listing products for sale to the public and indicating an option for payment for the products by check drawn on funds held by a third party bank independent of the merchant;

an anonymous customer computer independent from the merchant computer, and executing a stored program for communicating with the merchant computer over the Internet to identify the product desired to be purchased and to select the check payment option, the computer further transmitting at least one unique customer identifier from a customer over the Internet; and

a processor computer independent from the customer computer and the merchant computer programmed to receive at least one customer identifier in response to a selection of the payment by check option, the processor computer further including a data structure matching the customer identifier to at least one statistical element without communication with the third party bank, a probability of a payment obligation by the customer being honored, and based on that matching statistical element transmitting to the merchant computer an authorization indication indicating whether check payment for the product should be accepted and generating a printed check including the customer's name, the third party bank name, a check amount, and further including bank routing information;

whereby the printed check may be processed at any location using standard check processing channels.

2. (previously presented) The Internet check payment computer system of claim 1 wherein the statistical element is based on a factor selected from a group consisting of a total price of the identified product, the price and timing of previous purchases of other products using the unique customer identifier, the type of identified product and the occurrence of any dishonored payment associated with the previous transactions using the customer identifier.

3. (previously presented) The Internet check payment computer system of claim 1 wherein the authorization provides the following responses:

(1) an indication of not authorized, indicating that the acceptance of a check is not advised;

(2) an indication of authorized with no guarantee, indicating that the acceptance of a check is acceptably subject to the discretion of the merchant; and

(3) an indication of authorized with a guarantee indicating that the amount of the check will be guaranteed.

4. (previously presented) The Internet check payment computer system of claim 1 wherein the processor computer further transmits to a printer information to cause the printing of a check for the purchase of the merchandise.

5 – 7. (cancelled)

8. (previously presented) The Internet check payment computer system of claim 1 wherein the statistical element is based on a total price of the identified product.

9. (previously presented) The Internet check payment computer system of claim 1 wherein the statistical element is based on the price and timing of previous purchases of other products using the unique customer identifier.

10. (previously presented) The Internet check payment computer system of claim 1 wherein the statistical element is based on the occurrence of any dishonored payment associated with the previous transactions using the customer identifier.

11. (previously presented) The Internet check payment computer system of claim 1 wherein the unique customer identifier is a driver's license number of a customer operating the customer computer.

12. (cancelled)

13. (previously presented) The Internet check payment computer system of claim 1 wherein the unique customer identifier is selected from the group consisting of: a driver's license number, a phone number, a bank transit and routing number of an account of a customer operating the customer computer.

14. (previously presented) The Internet check payment computer system of claim 1 wherein the data structure further matches the customer identifier to the bank name, the customer name, and the bank routing information.

15. (cancelled)

16. (previously presented) The Internet check payment computer system of claim 1 wherein the processor computer transmits the authorization indication contemporaneously with the selection of the check payment option.

EVIDENCE APPENDIX

Affidavit under 37 C.F.R. Section 1.132, dated February 2002, attached hereto.

RELATED PROCEEDINGS APPENDIX

There are no related proceedings.

PATENT

I hereby certify that this correspondence is being deposited with the United States Postal Service on the date set forth below as First Class Mail in an envelope addressed to: Commissioner for Patents, Washington, D. C. 20231.

Date of Signature and Deposit: February 8, 2002

Attorney of Record

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Applicant(s):	Timothy LaBadie et al.
Serial No.:	09/259,619
Filed:	March 1, 1999
For:	Internet Based Payment System
Group Art Unit:	2761
Docket No.:	210655.90018

DECLARATION UNDER 37 CFR §1.132

Commissioner for Patents
Washington, D. C. 20231

Dear Sir:

I, Paul H. Green, hereby declare that :

1. I am the former co-chairman of the board of CrossCheck, Inc., the assignee of the above-referenced application and a co-inventor of the invention described in this application.

2. I have worked in the banking industry for over twenty-five years including eighteen years with CrossCheck, Inc. and before that in the capacity of President with the Telecredit company, a predecessor to Equifax, a leading consumer credit company with revenues of over $1,000,000,000. I am publisher of a newsletter reporting on issues related to check processing and validation and am author of the book Checks at the End of the Twentieth Century and Beyond, currently employed by the Federal Reserve Bank. As such, I am generally familiar with the commercial solutions for the processing of checks and their drawbacks.

3. I am familiar with the prosecution of the current application and the Templeton and Rowney applications now cited against the current application.

4. The present application, as amended, relates to the transport of checks. Checks are demand instruments, meaning that they are payable, if at all, only when presented to the named bank and only against funds in an identified account held by that bank. If no funds are held, no payment is made. This differs from a credit instrument which relies on a contract between the bank and the bank customer.

5. Processing checks can be a cumbersome operation requiring the physical transport of large quantities of paper instruments. Rowney represents one solution to this problem, termed generally: "check truncation", "check conversion", and "electronic check presentment". Through these mechanisms, the check is converted to a credit instrument that may be transmitted electrically over a variety of different networks including the ACH system.

6. A significant problem with check truncation is that in order for a check to be converted to a credit instrument, it must be sent to an organization having a pre-existing relationship with the issuing bank and its customer such as allows for enforceable credit obligations. This severely limits the flexibility of the merchant in using these systems. For instance, people having checking accounts through credit unions cannot use the ACH system for check truncation.

7. The present invention may be distinguished from Rowney and other check truncation systems by the fact that the check is not converted to a credit instrument, but remains a check throughout its life. This legal concept, from which many benefits flow, is manifest structurally by the fact that a paper check is ultimately presented to the payor bank. The paper check satisfies the necessary legal elements to be cashed as a check.

8. Rowney does not produce or teach the production of a paper check from information transmitted from the consumer electronically, as is

required in the amended claims of the present invention. One reason for this is that Rowney is concerned with Internet transactions where the merchant and customer are not face-to-face. Pure check transactions are not practical in this situation because the merchant does not have a physical check presented by the customer and therefore cannot vouch for any of the information required to recreate a check electronically. In contrast, the credit based transaction of Rowney requires only accurate identification of the customer and a pre-existing contract with that customer. Rowney provides complex methods of validating the customer's identity including the need for a secure Internet connection, and then relies on the credit contract.

9. The present invention allows actual payment with a check in an Internet transaction by using a statistical database linking individuals to probability of payment. The statistical database solves the problems of remote transactions by rolling the uncertainty of the individual's identity into the statistical mix. The check need not be and is not truncated.

10. The CrossCheck invention enfranchises individuals who for one reason or another do not have credit cards or credit privileges to use the Internet for purchasing goods and services. The CrossCheck invention provides true check transactions over the Internet, avoiding the need for the ACH system, special credit relationship with payor banks, or other complex verifications systems or pre-existing contracts with given customers. As such the CrossCheck invention accommodates the open nature of the Internet.

11. Each of the limitations that are now incorporated into claim 1, in which a remote processor computer makes the statistical analysis of the likelihood of payment and generates a printed check from the information conveyed over the Internet, described a product currently available from CrossCheck under the name of ChecksByNet. A demonstration of this system is available at www.ChecksbyNet.com.

12. The ChecksByNet product has been commercially successful having thousands of customers and merchants. This success is attributable directly to the elements of claim 1 of the present application which are necessary and sufficient to allow Internet transaction using a check as the instrument ultimately delivered to the bank.

13. I further declare that all statements made herein of my own knowledge are true and that all statements made on information and belief are believed to be true and further that these statements were made with the knowledge that willful false statements and the like so made are punishable by fine or imprisonment or both under §1001 of Title XVIII of the United States Code, and that such willful false statements may jeopardize the validity of the application or any patent issuing thereon.

Further Declarant sayith not.

Dated: Feb 2002

By: _____
Paul H. Green
CrossCheck

QPMKE 210655 90018\6151569.1
2/7/02